

**To:** Susan Shanks and Toby LaFrance, City of Tigard  
**From:** Todd Chase and Doug Gabbard, FCS GROUP  
**CC:** Derek Chisholm, Otak  
**RE:** Stormwater Utility Funding Options for River Terrace

**Date:** December 12, 2013

## INTRODUCTION

**This document identifies River Terrace stormwater utility funding options available to the City of Tigard.** The purpose of this memorandum is to provide input for discussion by city staff, elected officials and interested stakeholders prior to the formulation of a locally preferred financing and funding strategy.

## CURRENT STORMWATER SERVICE AND ITS FUNDING

Both Tigard and River Terrace are located in the Tualatin River watershed. In this watershed, stormwater management is provided by the City of Tigard (within city limits) and Clean Water Services (CWS), a county service district that provides wastewater and stormwater services to an area with over 542,000 residents.<sup>1</sup>

Within this district, cities have the option of providing services and facilities beyond those provided by CWS. To recover their costs, cities may also charge their own fees in addition to those charged by CWS.

### New Construction of Capital Projects

Based on its current capital improvement plan, the City plans to budget an average of \$262,400 per year for stormwater projects.<sup>2</sup> CWS budgets approximately \$3 million per year for stormwater project district-wide, but does not expect to fund capital stormwater facilities within the River Terrace district.<sup>3</sup>

The City currently has three revenue sources for capital projects. The first two, a 75 percent share of stormwater rates set by CWS (and collected/retained by the City of Tigard) and a surcharge of \$2 per month for stormwater system maintenance,<sup>4</sup> provide approximately \$2 million per year to the City. However, capital needs must compete with operational needs for these revenues. The third revenue source is a water quality/quantity facility fee of \$500 per dwelling unit. This fee, which is a system development charge (SDC) set by CWS (and collected/retained by the City of Tigard), usually provides less than \$10,000 per year.

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<sup>1</sup> Clean Water Services, "Clean Water Services--At a Glance," page 1.

<sup>2</sup> City of Tigard, "Capital Improvement Plan," fiscal years 2014-2018, page 75.

<sup>3</sup> Clean Water Services, "Proposed Fiscal Year 2013-2014 Budget," page 71.

<sup>4</sup> City of Tigard, "FY 2013-14 Adopted Budget," page 368.

## Operations

The Stormwater Division of the City's Public Works Department has current budgeted operational needs of \$1.4 million per year. These needs are financed with a 75 percent share of stormwater rates charged by CWS and a surcharge of \$2 per month for stormwater system maintenance.

## POTENTIAL FUNDING SOURCES

In addition to the current funding sources for stormwater that are identified above, the City could consider several potential new means of funding construction and ongoing operation of stormwater-related infrastructure in the River Terrace subarea plan district. This discussion focuses on revenue sources that the City can implement apart from CWS. These potential sources of capital and operating funding for the water utility are identified and evaluated at the end of this memorandum in **Exhibit 1**.

### New Construction

Options for financing capital needs include both revenue sources and financing mechanisms. Ultimately, new expenditures require new revenues. However, financing mechanisms can be used to delay or attenuate the need for additional revenue.

Potential revenue sources include the following:

- Area-Specific Stormwater Utility Rates
- Stormwater SDCs (citywide and/or area-specific)
- Special Assessments (such as Local Improvement Districts or Reimbursement Districts)
- Regional Stormwater Management Charge
- Urban Renewal Area
- Developer Contributions

Potential financing mechanisms include the following:

- Bonds (General Obligation Bonds, Full Faith and Credit Bonds, Revenue Bonds, etc.)
- Special Programs

### Area-Specific Stormwater Utility Rates

To the extent that a specific area imposes costs (whether capital or operating) on a utility that the remainder of the customer base does not impose, area-specific rates can be justified. Implementing area-specific rates can take a couple of different forms. On the one hand, the entire utility service area can be divided into districts, and each district can have its own rate schedule. On the other hand, a base charge could be imposed in the entire utility service area with surcharges imposed only in those areas of higher cost.

Although CWS sets current stormwater utility rates (collected/retained by the City of Tigard), the City is free to impose its own rate (as it has with the \$2 surcharge).

### Stormwater SDCs

ORS 223.297 to 223.314 allows local governments to impose SDCs for capital improvements related to water. SDCs are one-time fees imposed on new development or certain types of major redevelopment. They are intended to recover a fair share of the costs of existing and planned facilities that provide capacity to serve growth. SDCs cannot be used for operation or routine maintenance.

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As mentioned above, the City already collects a stormwater SDC that is imposed by CWS. In addition, the City could impose its own stormwater SDC. Such an SDC could be citywide, or it could be an area-specific SDC that recovers the cost of growth-related stormwater projects within River Terrace.

### Special Assessments

Local governments can assess specific property owners that benefit from the construction of local facilities through local improvement districts (LIDs) or reimbursement districts.

ORS 223.387 to 223.401 provides local governments the statutory authority to establish LIDs and levy special assessments on the benefited property to pay for improvements. LIDs result in upfront or annual payments from affected property owners within a district. LIDs are payable in annual installments for up to 30 years. LIDs are generally used for capital improvement projects that benefit numerous large tenants and/or private property owners. The future revenue stream generated by LIDs can be used by local governments to obtain financing through the use of loans or bonds.

Similar to LIDs are reimbursement districts. Local governments can negotiate public/private advance financing arrangements with developers, where a developer agrees to front capital improvements/investment within a designated zone of benefit district (ZBD). The local government that adopts a zone of benefit applies a special development impact fee that is charged based on a proportional benefit to properties for the capital infrastructure. The developer is then partially reimbursed when future land use development approvals are granted within the ZBD over a period that usually extends 10-15 years. However, there is no guarantee that future revenues will be as steady and reliable as LID or property tax assessments.

### Regional Stormwater Management Charge

CWS is developing a regional stormwater management charge (RSMC) that is a hybrid between an SDC and a reimbursement district. Initial implementation of an RSMC is planned for the North Bethany area in 2014. The RSMC is being designed in North Bethany as a mechanism to address construction of new water quality and quantify facilities for the amount of stormwater that's generated within 23 identified sub-basins. Developers would have the option of providing on-site stormwater facilities or paying the RSMC fee (based on proposed amount of \$9.00 per cubic foot of stormwater volume created). As with SDCs and reimbursement districts, an RSMC is a mechanism that is more appropriate for *ex post* cost recovery rather than *ex ante* financing. Initial capital outlays for RSMC projects are expected to be financed through capital reserves or through developer contributions (with reimbursement through RSMC revenues).

### Urban Renewal Area

There may be opportunities to utilize funding from the creation of a new River Terrace Urban Renewal Area (URA) for eligible economic development improvements in accordance with ORS Chapter 457. In many cases, URA funds are combined with other local funding sources (e.g., LIDs) to leverage non-local grants or loans.

### Maximum Indebtedness Requirements

After the passage of House Bill 3056 (passed by the Oregon Legislature in 2009) urban renewal agencies have new limits on the amounts of maximum indebtedness (MI) in an urban renewal plan adopted after January 1, 2010.

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- ◆ If the total “frozen tax base” is \$50 million or less (as in the case of River Terrace where existing assessed market valuation was \$31.84 million in 2013), the total MI may not exceed \$50 million (ORS 457.190(4)(a)).
- ◆ Under ORS 457.220, increases in MI may not exceed an aggregate of 20% of the original MI of the UR Plan, but with an “indexing” of the original MI from July 1, 1999 or one year after the plan was initially approved, whichever is later. Indexing may only happen once.

### Revenue Sharing Possibilities

There are also new possibilities for revenue sharing with overlapping districts for plans adopted or substantially amended to increase MI after January 1, 2010. Revenue sharing among overlapping tax districts begins in the later of the 11th year after the initial plan was adopted, or when division of tax collections equal or exceed 10% of the initial MI.

### Concurrence Waivers

Variations in the maximum indebtedness requirements and the revenues sharing provisions can occur if the municipality obtains the written concurrence of the overlapping tax districts that impose at least 75% of the taxes imposed under the permanent rate limits in the URA.

In light of these and other URA provisions, the City may consider the creation of a new River Terrace URA in accordance with requirements set forth in ORS Chapter 457.

### Developer Contributions

For smaller facilities that will serve a single development, the City can require a developer to construct the facility as a condition of development approval. In cases where dedicated cost of public facilities are eligible for SDC credits, the developer may be entitled to an amount of SDC credit based on the amount of the SDC improvement charge and the value of the land and/or capital facility provided (assuming the facility is a “qualified public improvement” as defined in ORS 223.304(4)).

As mentioned above, developers may also provide advance financing through development agreements with the City, using various means of reimbursement (such as LID or reimbursement district payments).

### Bonds

Bonds are a common means of financing stormwater projects whose benefits are not confined to a single local area.

General obligation (GO) bonds are advantageous, because their debt service is funded by a property tax levy that is outside the limits of Measure 5. However, GO bonds do require voter approval.

Revenue bonds are a form of debt financing that does not require voter approval. However, revenue bonds do require an ongoing source of revenue that can be pledged to payment of debt service. Revenue bonds are subject to debt service coverage requirements.

A hybrid of these two bond types is the full faith and credit obligation (FFCO). This type of bond represents an unsecured claim on all the revenue streams of an agency without the pledge of any particular revenue stream. FFCOs do not require voter approval, and they are not subject to debt service coverage requirements.

### Special Programs

The City may utilize private bank loans or state loans to make strategic capital facility upgrades. State loan funds available from Business Oregon currently include the Special Public Works funds that are available on a competitive basis to public jurisdictions and can fund projects up to \$3 million in size.

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Oregon Bond Bank or Oregon Infrastructure Finance Authority loan funds may be available if the project is well secured and other funding alternatives are not available.

## Potential Funding of Operational Needs

**User charges, including the current stormwater rate and the City's own surcharge, will continue to be the City's primary means of meeting the operational needs of its stormwater management program.**

To the extent that the River Terrace area requires stormwater facilities and costs (whether capital or operating) that the remainder of the customer base does not incur, area-specific rates can be justified. Implementing area-specific rates usually occur in one of two forms: either (1) the entire utility service area is divided into districts (i.e., sub-basins) with each district having its own rate schedule or (2) a base charge is imposed in the entire utility service area with surcharges imposed only in those areas of higher cost.

The City may also require Low Impact Development Approaches (LIDA) to mitigate stormwater run-off from new development, require on-site mitigation or impose a regional stormwater management charge to fund facilities that are necessary to meet or exceed CWS standards.

## NEXT STEPS

Once the city receives input from the River Terrace Technical Advisory Committee and the River Terrace Stakeholder Working Group on the advantages and disadvantages of these stormwater utility funding options, FCS GROUP will work with city staff to "shortlist" funding options for additional consideration.

Exhibit 1

River Terrace Stormwater Facility Funding Options

Funding Option	Considerations					
	Area of Benefit	Lead	Capital Funding	Annual O&M Funding	Advantages	Disadvantages
Stormwater Utility Rates (including area-specific rates)	Citywide or River Terrace Dist.	City Council	\$	\$\$\$	Flexible funding with local precedence	Pay-as-you-go funding for capital projects may not be available when needed.
Stormwater System Development Charge Update (SDCs)	Citywide	City Council	\$\$		Existing citywide SDC can be updated to include River Terrace projects.	River Terrace projects would not have priority over other city projects. SDCs cannot fund O&M costs.
Supplemental River Terrace Stormwater SDCs	River Terrace	City Council	\$\$\$		New River Terrace SDC could dedicate funds to River Terrace, as development occurs	SDCs cannot fund O&M costs.
Special Assessments (LIDs or Reimbursement District)	River Terrace	Property Owners & City	\$\$		Addresses specific capital improvements with construction timelines; equitable cost allocation results in majority support by affected prop. owners	Some risk to city in case of property owner default on payments
Regional Stormwater Management Charge (RSMC)	River Terrace	City	\$\$		Addresses specific capital improvements (like reimbursement districts) but has a standardized cost to developers (like SDCs).	As with reimbursement districts, initial capital outlays would have to be funded from another source.
Urban Renewal Area (URA)	River Terrace	City Voters	\$\$\$		New URA could generate funds as development occurs; can be used on wide range of capital projects	URAs cannot fund O&M costs; requires citywide voter approval in Tigard

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River Terrace Stormwater Utility Funding Options

Exhibit 3 (continued)

Funding Option	Considerations					
	Area of Benefit	Lead	Capital Funding	Annual O&M Funding	Advantages	Disadvantages
General Obligation Bonds (voter approved)	Project Specific	City Voters	\$\$\$		Project-specific funding source with dedicated source of stable revenue (property tax). Limited risk to City	Public voter referendum has admin cost to City with no guaranteed outcome. Cannot be used for O&M
Full Faith & Credit Bonds (not voter approved)	Project Specific	City Council	\$\$		Project-specific funding source if dedicated revenues are available	Risk to City depends on sources of dedicated revenues. Cannot be used for O&M
Revenue Bonds	Project Specific	City Council	\$\$		Project-specific funding source if dedicated revenues are available	Risk to City depends on sources of dedicated revenues. Interest rates are higher than GO Bonds. Cannot be used for O&M
Special Programs	Project Specific	City Council	\$\$	\$	Project-specific funding source if dedicated revenues are available	Risk to City depends on sources of dedicated revenues. Interest rates are higher than Bond issues
Developer Contributions	Project Specific	City Council & Developer	\$\$		Developer constructs facility to city standard as a condition of approval; can be eligible for SDC credit.	Limited applicability

**Legend:**

**\$ least positive**

**\$\$\$ most positive**

Source: FCS GROUP and City staff.